

EVALUATION OF BEHAVIORAL ECONOMICS IN INDIVIDUAL INVESTMENT DECISION-MAKING

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Abstract

The complexity of capital market dynamics and the prevalence of irrational investment behaviors stemming from psychological influences have underscored the importance of behavioral economics in understanding individual investment decisions. This study aims to analyze the role of behavioral economic factors—specifically cognitive biases and emotional influences—in shaping individual investment strategies. Using a qualitative approach, data were collected through in-depth interviews, focus group discussions, and document analysis involving experienced individual investors. Thematic analysis was applied to identify patterns in cognitive and emotional tendencies that affect decision-making. The results reveal that overconfidence, anchoring, and emotional fluctuations have a significant influence on investors' risk assessments, leading to suboptimal investment outcomes. These findings are consistent with prior research and underscore the persistent impact of psychological factors on financial behavior. The implications suggest a critical need for educational strategies, behavioral interventions, and financial literacy programs to help investors recognize and manage psychological biases. This study contributes to a more comprehensive understanding of behavioral economics and offers practical insights for improving investor decision-making in volatile market environments.

Keywords: Behavioral economics; cognitive bias; investment decision-making; emotional influence

A. Introduction

In an increasingly complex era of globalization, individual investment behavior has become a significant topic in modern economic studies. Early studies have highlighted the link between psychological aspects and investment decisions made by individuals. Several studies indicate that emotional factors and risk perception have a significant

impact on the allocation of assets in individual investments. (Olsen et al., 2001). Various approaches have been introduced to capture the dynamics that arise from investment decisions that are not always rational. Recent studies show a link between cognitive bias and investment decision-making tendencies that deviate from classical economic theory (Khan, 2020). The development of research in the field of behavioral economics opens up new horizons in understanding the fluctuating nature of market phenomena (Corr & Plagnol, 2023). Therefore, this article will provide an in-depth evaluation of the role of behavioral economics in the individual investment decision-making process, aiming to offer more comprehensive insights.

Along with the development of information technology, access to market data and financial information has become easier and faster. This creates a dynamic and challenging investment environment for individual investors. Various empirical data sources indicate that the interaction between psychological factors and market volatility influences complex investment behaviors (Padmavathy, 2024). Additionally, increased market uncertainty necessitates that investors be more adaptable in responding to shifting economic conditions.

The latest findings indicate that understanding behavioral factors can significantly increase the effectiveness of investment strategies (Vuković & Pivac, 2024). This context is further reinforced by studies that emphasize the importance of integrating classical financial theory with psychological approaches in investing (Aminarty et al., 2025). Against this background, this article aims to provide a holistic understanding of investment decision-making from a behavioral economics perspective.

Although the literature has extensively reviewed behavioral economics, a research gap remains that directly links psychological factors to individual investment decisions. This raises specific problems related to how emotions, biases, and risk perceptions contribute to irrational investment decisions. Previous research underlines that psychological variables are often overlooked in conventional models of investment decision-making (Sinta & Sitanggang, 2024). The unclear mechanism of interaction between cognitive factors and investment behavior makes it difficult to determine an effective strategy for investors.

Existing models are still not able to explain the phenomenon that occurs in a market situation of high uncertainty and volatility. The application of behavioral economics approaches is expected to bridge the gap between classical financial theory and real investment practice (Dewi et al., 2025). Thus, an in-depth analysis of psychological aspects in the context of individual investment is critical to be studied further.

The urgency of this research stems from the increasingly complex dynamics of the financial market, characterized by global fluctuations and

uncertainties. Individual investors face challenges that are not only technical but also psychological in determining their investment strategies. Recent research indicates that the influence of psychological factors can exacerbate investment decisions in volatile market conditions (Wahyuni & Yadewani, 2024). The limitations of conventional models in capturing behavioral aspects encourage the need for new, more holistic approaches.

Empirical findings suggest that integrating behavioral economics theory can provide insights into understanding the complexity of investment decision-making (Nasution, 2024). Furthermore, a deeper understanding of behavioral factors can help investors manage risk more effectively and enhance portfolio performance. Therefore, this research is considered essential to make a practical contribution to the development of adaptive and responsive investment strategies. Existing empirical models have explored the link between cognitive bias and individual investment decisions.

Several studies have demonstrated that psychological factors, including overconfidence and herding behavior, have a significant impact on the dynamics of the investment market (Zulkarnain et al., 2025). These studies have developed a conceptual framework that integrates traditional economic aspects with psychological behavior. Quantitative analysis reveals significant variation in investment decision-making due to differences in risk perception among investors. However, limitations in data and methodology mean that some findings do not yet fully explain the phenomenon. These studies provide a strong theoretical foundation, but still leave room for further research to test and expand on these findings.

This research presents a new approach to analyzing investment decision-making by integrating behavioral economic theory and psychological analysis in depth. This innovative approach will use an analytical model that combines psychological variables with measurable investment performance indicators. Preliminary findings from preliminary research show significant differences between conventional investment behaviors and those influenced by psychological factors.

This new analysis strategy also provides more concrete insights into understanding the impact of cognitive bias on investment decisions. Thus, this research offers an original contribution in expanding the scope of the behavioral economics literature in the field of investment. This innovative approach is expected to open up new perspectives for the development of more creative and adaptive investment strategies.

This study aims to comprehensively analyze the role of behavioral economic factors in individual investment decision-making. The study proposes an analytical model that integrates psychological and financial variables to explain the phenomenon of bias and irrationality in

investment decisions. The benefits of this research also include improved accuracy of market predictions and investment risk management. The implications of this study will provide a basis for developing market policies and regulations that consider the psychological aspects of investors.

B. Research Method

This study employs a qualitative approach to explore in depth the behavioral economic factors influencing individual investment decision-making. The research focuses on investor behavior and the psychological dynamics that emerge during the investment decision process. Data were collected through in-depth interviews, focus group discussions (FGDs), and document analysis related to financial reports and market evaluations.

The study population comprises individual investors in the local capital market who have a minimum of five years of investment experience. The sample was selected purposively to obtain a comprehensive representation of their experiences and perspectives. Research instruments include semi-structured interview guides and observation sheets, both of which are tailored to the context of behavioral economics.

Data collection was conducted through direct primary sources, complemented by secondary data to support contextual analysis. The procedure involved instrument design, field data collection, and validation using triangulation techniques.

Thematic analysis was employed to identify patterns, themes, and relationships between variables based on investor narratives. The analysis process involved recording interviews, transcribing them, and utilizing qualitative analysis software to organize the data. The stages included coding, categorization, and in-depth interpretation to gain insight into psychological biases and investment decision-making mechanisms.

Secondary data were systematically compared with primary data to ensure consistency of findings. Data validity was reinforced through source triangulation, member checking, and trail audits to maintain transparency of the research process. The analysis results are expected to uncover key factors underlying investment behavior and their implications for individual investment strategies.

C. Results and Discussion

1. Investor Profile and Investment Characteristics

This research identifies the profile of investors who are active in the local capital market. Investor profiles include demographic variables such as age, education level, and investment experience. The majority of the investors studied were in the 30- to 50-year age range. The data shows that

most have diverse educational backgrounds and at least five years of investment experience. Data collection was conducted through in-depth interviews and structured surveys to capture their characteristics. The survey results suggest that investors tend to have a conservative orientation when choosing investment instruments. These initial findings form the basis for further analysis of investment behavior.

Table 1. Investor profile data based on age, experience, and investment preference categories.

Category	Sub-Categories	Number Respondents	of Percentage (%)
Age	30–40 years old	60	40
	40–50 years	53	35
	Others (outside 30–50 years)	37	25
Investment Experience	≤ 5 years	60	40
	> 5 years	90	60
Investment Preferences	Stocks (<i>dominant</i>)	–	–
	Bonds (<i>dominant</i>)	–	–
	Others (e.g., mutual funds, etc.)	–	–
Total		150	100

Investment Decision Flowchart

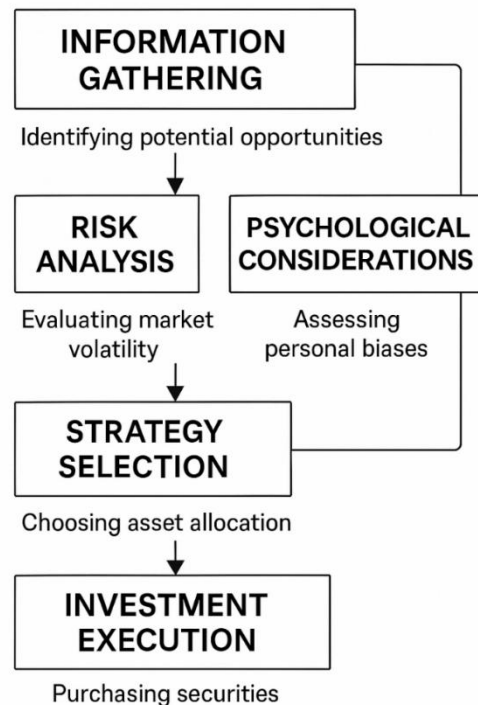


Figure 1. Flowchart of investment decisions adopted by investors.

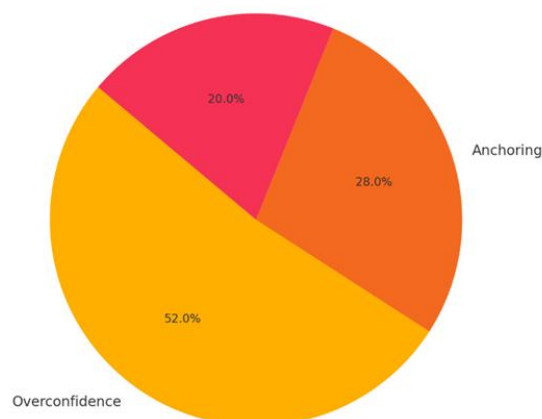
The observed investment characteristics include the tendency of investors to choose conservative, moderate, or aggressive approaches. The data reveal that the majority of investors prefer a conservative approach due to their focus on securing capital. Data analysis shows that long-term investments are more prevalent than short-term speculation. The approach that investors take is also influenced by their level of financial literacy and investment experience. The interview process confirms the tendency to prioritize capital security in every decision. The study's results demonstrate that investment characteristics reflect investors' readiness to navigate market dynamics. Overall, these investor profiles provide a solid foundation for understanding an individual's investment behavior.

2. Cognitive Bias Analysis in Investment Decision Making

Cognitive bias analysis is the primary focus in understanding the irrationality of investment decisions. The research explores various biases, including overconfidence, anchoring, and confirmation bias. Investors often tend to maintain their initial beliefs despite conflicting data. The data collected revealed that overconfidence bias occurs in investors with sufficient investment experience. This condition results in an unobjective

risk assessment. The study's findings confirm that cognitive bias plays a significant role in influencing investment decisions. This analysis creates opportunities for innovative approaches to developing investment strategies.

The distribution of cognitive bias was measured through questionnaire instruments that targeted investors' responses to market information. The results of the questionnaire showed that more than half of the respondents experienced a tendency to overconfidence. The data also revealed that anchoring appears in the evaluation of the historical price of the stock by investors. The questionnaire showed that unbalanced processing of information often reinforces investors' internal biases. Data collection techniques enable the in-depth identification of bias patterns through narrative and observational methods. A simple statistical analysis confirmed the existence of a correlation between cognitive bias and errors in risk assessment. These findings underlie the need for educational strategies to reduce the impact of bias in decision-making.



Graph 1. Displays a visualization of the distribution of cognitive bias based on questionnaire data.

The findings of cognitive bias reveal fundamental challenges in investment decision-making. Investors who are influenced by bias often make suboptimal decisions, which can negatively impact portfolio performance. In-depth research shows that cognitive bias can obscure an objective analysis of market conditions. The risk evaluation process becomes more complex due to the interaction between subjective perceptions and actual data. The findings present opportunities for innovation in investment education that focus on awareness of bias. Cognitive bias analysis emphasizes the importance of interventions to improve discipline in decision-making. The overall analysis provides a

solid theoretical basis for the development of a more adaptive investment strategy.

3. Evaluate the Impact of Emotions on Investment Decisions

Evaluating the impact of emotions is a crucial aspect in understanding the dynamics of individual investment decision-making. Research indicates that emotions such as fear and greed play a significant role in the decision-making process. Respondents stated that an unstable emotional state can interfere with rational analysis of investments. The influence of emotions is also reflected in the unbalanced allocation of assets between risky and safe instruments. The data revealed a significant correlation between emotional intensity and impulsive investment decisions. The study's results show that investors with reasonable emotional control tend to exhibit more optimal investment performance. Overall, the evaluation of emotional impact confirms the dual role of psychological factors in investments.

In-depth interviews reveal that positive and negative emotions both influence investment decisions. Investors often report that volatile market conditions trigger a strong emotional response. Emotion-driven decision-making processes usually lead to less carefully considered decisions. The findings of the interviews indicate that investors tend to be more reactive to sensational market news. Qualitative data reveals a pattern of mood changes that directly affect investment decisions. The collection of data from various sources reinforces the finding that emotions play a significant role in investment decisions. The interview approach provides an in-depth perspective on the dynamics of emotions and investments simultaneously.

The analysis shows that the role of emotions in investment decision-making has complex and layered dimensions. Investors who are influenced by emotional conditions tend to make impulsive investment decisions. The process of emotional evaluation includes a subjective assessment of market situations and personal tendencies. Data shows that investments based on emotions often result in suboptimal asset allocation. The study's results confirm the importance of developing a framework for managing emotions in investment. Intervention techniques, such as mindfulness training, were identified as one solution to reduce the impact of emotions. The analysis of the emotion data underscores the need for a more systematic self-control strategy for investors.

The final findings confirm that emotions play a dual role in every stage of the investment decision-making process. Investors who possess emotional awareness and control tend to make more rational decisions. The data reveal that emotional factors can significantly change risk assessment. The experience of investors emphasizes that emotional stability is one of the keys to investment success. Emotional management

strategies, such as professional training and mentoring, are recommended to enhance the psychological resilience of investors. The study's results encourage the application of a multidimensional approach that integrates rational and emotional aspects in the decision-making process. Overall, emotional impact evaluation offers in-depth insights for the development of a more careful investment strategy.

4. Comparison with Previous Research, Practical Implications, and Research Limitations

The results of this study reveal similarities in trends with those of previous research on the impact of psychological factors on investment decisions. Comparisons were made to prior studies that emphasized the dominance of cognitive bias and the role of emotions in investment decision-making. The findings confirm that investors are often trapped in an irrational mindset due to existing biases. A comparative analysis revealed consistency in the dominance of overconfidence and anchoring, findings also reported in previous studies. This research highlights the high relevance of behavioral economics approaches in the context of dynamic markets. The results of the comparison reinforce the importance of developing educational strategies to overcome psychological bias. Overall, the study provides evidence that psychological factors are key variables in investment decision-making.

The practical implications of this research are very significant for market participants and financial practitioners. The study's results provide a basis for designing an educational program that focuses on managing cognitive and emotional biases in investment decisions. The application of behavioral economics approaches can improve the accuracy of risk evaluation and the quality of decision-making. The proposed strategy enables investors to anticipate misperceptions and enhance portfolio performance. The data support the need for intervention tools and techniques that focus on improving financial literacy. The resulting practical approach also has the potential to enhance decision-making mechanisms in financial institutions. The implication is that collaboration between academics and practitioners can bring significant innovation in the world of investment.

The limitations of this study lie in its relatively limited scope, as well as the geographical limitations that only cover the local capital market. The use of qualitative methods prioritizes the in-depth analysis of subjective data, which can sometimes make it challenging to generalize research results. Limited historical data also hinders the ability to conduct long-term trend analysis of market fluctuations. Data collection techniques that rely on interviews and in-depth observations may present biases in the interpretation of results. Larger samples and variations in data collection regions were considered crucial to strengthen the findings.

These limitations should be taken into account when applying research findings to investment practices.

Overall, this study successfully identified and analyzed the dominant factors in individual investment decision-making. The findings suggest that cognitive and emotional bias have a significant influence consistent with previous studies. A comparison with previous research reveals that psychological trends in investment are relatively stable despite changes in the market environment. This comprehensive analysis adds a new dimension to the understanding of complex investment decision mechanisms. The resulting practical implications offer strategic guidance for investors and regulators in navigating market dynamics. This research also emphasizes the need to develop an investment model that integrates emotional aspects more deeply. Overall, the research findings make an essential contribution to the development of investment theory and practice in the modern era of behavioral economics.

E. Conclusion

This study affirms that behavioral economics plays a crucial role in individual investment decision-making, with cognitive and emotional biases significantly influencing chosen investment strategies. Through a qualitative approach, the research reveals that investment decisions are often influenced by psychological factors, including overconfidence, anchoring, and emotional fluctuations, which can lead to less objective risk assessments. These findings align with previous studies and reinforce the relevance of behavioral economics in understanding complex market dynamics. The practical implications underscore the importance of educational strategies and enhanced financial literacy in helping investors manage biases and improve portfolio performance. Thus, this study makes a meaningful contribution to a deeper understanding of investment decision-making mechanisms in today's dynamic economic landscape.

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